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Room No.—Bldg.

Executive Secretary

Phone No.

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NSC review
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OFFICE OF THE SECRETARY OF THE TREASURY
WASHINGTON, D.C. 20220

Executive Registry
82-13210

November 24, 1982

UNCLASSIFIED
(With Secret Attachments)

MEMORANDUM FOR THE VICE PRESIDENT
THE SECRETARY OF STATE
THE SECRETARY OF DEFENSE
THE SECRETARY OF AGRICULTURE
THE SECRETARY OF COMMERCE
THE SECRETARY OF TRANSPORTATION
THE SECRETARY OF THE INTERIOR
THE SECRETARY OF ENERGY
THE DIRECTOR, OFFICE OF MANAGEMENT
AND BUDGET
CHAIRMAN, COUNCIL OF ECONOMIC ADVISORS
ASSISTANT TO THE PRESIDENT FOR
NATIONAL SECURITY AFFAIRS
ASSISTANT TO THE PRESIDENT FOR
POLICY DEVELOPMENT
UNITED STATES TRADE REPRESENTATIVE
✓ DIRECTOR OF CENTRAL INTELLIGENCE

SUBJECT Senior Interdepartmental Group on International
Economic Policy

Attached are papers on Eastern European debt issues and alternative energy sources for discussion at a meeting of the SIG-IEP which is scheduled for Monday, November 29, 1982, at 10:00 a.m., in the Roosevelt Room (White House). Attached also for your information is the text of a State Department background briefing on East-West trade.

Attendance will limited to the principal, plus one.

David E. Pickford
David E. Pickford
Executive Secretary

Attachment

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B2238

Eastern European Debt

Yugoslavia

The IG-IEP reviewed the Eastern European debt situation and that of Yugoslavia. They concurred with a staff paper which showed that Yugoslavia was in a very tight financial situation. Although its debt service is a manageable 25 percent, Yugoslavia has little cash to meet its obligations. The outlook for 1983 is very grave. The first half of the year is the seasonal weak half and estimates of the financing requirement range from \$3.8 billion to \$4.0 billion. Of this amount, only \$2.6 - \$2.8 billion can be identified and even this is far from certain.

The second half of the year is more favorable but even if the Yugoslavs are able to see their way clear through that period, they will enter the first half of 1984 in the same weak position as they are now.

The IG concluded that it made sense to try to see if we could put together a medium-term financial package with our Allies. If so, it would then be appropriate to consider short-term financing arrangement as a "bridge" to help the Yugoslavs with their immediate financial squeeze. It was stressed that a financial package was not a panacea for structural adjustment on the part of the Yugoslavs and it was not in our interests or theirs to seek a "quick fix" which would merely shift the problem to the second-half of 1983. It is only through an effective adjustment program that the banks will be attracted back into Yugoslavia.

The next step is to meet with a small group of Europeans to share our concern over the Yugoslav financial situation and to determine if they would be willing to undertake a medium-term financial package. For our part, we would be willing to do our share -- between 15 and 20 percent made up primarily of CCC and perhaps some reallocation of State's Economic Support Fund. We would play an important and supportive role in this exercise but would look to the Europeans for leadership in putting together the financial package.

Poland

The IG noted that the commercial banks have signed their 1982 debt rescheduling agreement with Poland and are providing 50 cents in new short-term trade credits for each dollar of interest paid by Poland. We can anticipate that with the

Scope Paper

Recommendations of the International Energy Security Group

Issues

1. What international actions can the United States take to help our Allies reduce dependency on Soviet energy supplies? In particular, how can we discourage further European purchases of Soviet gas and encourage development of economically viable gas alternatives, such as the giant Troll field in Norway?
2. What actions can the United States take domestically to contribute to a better global energy picture and gain credibility abroad in our negotiations with the Europeans on limiting their dependence on Soviet energy?
3. Should the United States consider partially lifting the ban on Alaskan oil exports to Japan (preliminary discussion)?
4. To what extent can Soviet gas block the development of non-Soviet alternatives for European gas markets in the 1990s?

Background

The International Energy Security Group (formerly the Alternative Energy Group) has reviewed domestic and international measures to reduce Allied dependency on Soviet energy. The work has been done independently of the East-West non-paper exercise, although the Group's recommendations are relevant to the follow-up studies on energy dependency. An NSC meeting on these issues is contemplated for early December. Guidance from the SIG-IEP on the international measures and the foreign policy implications of Alaskan oil export to Japan is requested before that meeting. The domestic energy recommendations have been sent to Secretary Watt for consideration by the Cabinet Council on Natural Resources and the Environment which is scheduled to meet December 2.

Agenda (including recommendations for each item)

1. International Measures to Reduce Allied Dependency on the Soviet Union. (Introduction by Under Secretary Wallis). The principal U.S. objective should be to increase European energy security by minimizing Soviet gas deliveries in the 1990s and encouraging economically viable alternative sources to meet incremental European gas demand in the long-term. To this end, the Group recommends consideration of the following strategy:

-- Seek to limit European purchases of Soviet gas in order to preserve market share for large-scale alternatives and to reduce the security risks of a shutoff of Soviet gas.

SECRET
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DEPARTMENT OF STATE
BACKGROUND BRIEFING
BY
SENIOR ADMINISTRATION OFFICIALS
ON
EAST-WEST TRADE
SATURDAY, NOVEMBER 13, 1982, 2:20 P. M.

MR. JOHN HUGHES: Good afternoon all. Sorry to keep you waiting. Secretary of State Shultz sends his regrets. He got something caught in his throat during lunch. He's fine, but in view of the fact that we're heading off to Moscow this afternoon, several of his aides thought it would be just as well to get that checked out. So he drove over to George Washington Hospital and is getting that checked out, so he won't be with us until a little later on.

Q What did he get caught in his throat?

MR. HUGHES: I don't know. This is a session ON BACKGROUND in connection with the President's radio address. You certainly may quote these officials, but you may not attribute to them by name. They are to be described as senior Administration spokesmen.

FIRST OFFICIAL: The only other time I was in here it was so bright I couldn't see, and now it's so dark I can't see, but it averages out all right.

These discussions with our friends -- seven countries -- revealed a very broad area of agreement on fundamental aspects of East-West economic relations. Indeed, that's really how the discussions got going, when it was discovered in the conversations that the Secretary had with a number of the foreign ministers, that fundamentally there was broad agreement, and an effort was made to follow up on that.

The agreement that has been reached in substance is, a signal to the Soviet Union that the Western allies agree on the fundamental aspects of their economic relationships with the U.S.S.R.

The countries involved in the agreement have agreed that economic relations with the Soviet Union and the countries of Eastern Europe are an integral part of the overall relationship with those countries and must be viewed in a security context.